

Message Text

PAGE 01 CAIRO 05947 161131Z

50

ACTION NEA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 SAM-01 CIAE-00

DODE-00 INR-07 NSAE-00 PA-01 USIA-06 PRS-01 COME-00

LAB-04 SIL-01 FRB-03 AGR-05 FEAE-00 /081 W

----- 054103

R 161035Z JUN 75

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 4597

INFO AMEMBASSY BEIRUT

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY TEHRAN

LIMITED OFFICIAL USE CAIRO 5947

E.O. 11652: NA

TAGS: USEGJC, EGEN, EFIN, EG

SUBJECT: ECONOMIC LIBERALIZATION: GOOD NEWS AND BAD NEWS

REF: A. CAIRO 5530 B. CAIRO A-198, DEC 13, 1974

SUMMARY: GOE EFFORTS TO LIBERALIZE CERTAIN ASPECTS OF ECONOMY HAVE BEEN SUCCESSFUL BUT HAVE ALSO HAD SOME PREDICTABLY ADVERSE EFFECTS. INCREASED DEMAND FOR FOREIGN EXCHANGE RESULTING FROM IMPLEMENTATION LATE LAST YEAR OF "OWN CURRENCY" IMPORT PROGRAM, WHICH PERMITS EGYPTIANS AND FOREIGNERS TO SUPPLY VARIOUS COMMODITIES FOR SALE IN LOCAL ECONOMY, PLUS RELAXATION OF DOMESTIC EXCHANGE CONTROLS HAS DEPRIVED PARALLEL MARKET OF HARD CURRENCY RESOURCES AND ALSO INCREASED ACTIVITIES AND PRICES OF BLACK MARKET. GOE APPEARS WILLING TO ACCEPT ECONOMIC PROBLEMS, AND POTENTIAL POLITICAL PROBLEMS, IN ORDER ACCOMPLISH PRIMARY GOAL: ADDITIONAL IMPORT AVAILABILITIES WITHOUT USE OF GOVERNMENT-HELD FOREIGN CURRENCIES: END SUMMARY.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 CAIRO 05947 161131Z

1. OVER PAST 18 MONTHS GOE HAS TAKEN NUMBER OF STEPS TO DEAL WITH PROBLEMS RELATED TO FOREIGN EXCHANGE SHORTAGE AND NEED FOR INCREASED IMPORTS. PARALLEL MARKET, ESTABLISHED SEPTEMBER 1973, REPLACED AND CONSOLIDATED PREVIOUS SYSTEM OF MULTIPLE INCENTIVE

AND SUBSIDY PROGRAMS AND WAS DESIGNED TO STIMULATE NON-TRADITIONAL EXPORTS AND ENCOURAGE IN-FLOW OF HARD CURRENCIES. THIS WAS TO BE ACCOMPLISHED BY MEANS OF ARBITRARILY ESTABLISHED 50 PERCENT PURCHASE PREMIUM (AND 55 PERCENT SELLING SURCHARGE) FOR FOREIGN EXCHANGE ENTERING COUNTRY AS RESULT OF CERTAIN ACTIVITIES: TOURISM, WORKERS' REMITTANCES, INVISIBLES, ETC. MARKET WAS ALSO SUPPLIED WITH ADDITIONAL FUNDS FROM VARIOUS OFFICIAL SOURCES, AND PROCEEDS WERE AVAILABLE FOR SPECIFIC CATEGORIES OF EXPENDITURES, PARTICULARLY IMPORTS FOR PRIVATE SECTOR AND TOURIST-RELATED ACTIVITIES. OVER ENSUING MONTHS LIST OF COMMODITIES ELIGIBLE FOR IMPORTATION EXPANDED CONSIDERABLY (REFAIR B) TO INCLUDE NUMBER OF CONSUMER AND LUXURY GOODS, AND IMPORTS OF LESS THAN LE 5,000 (VICE LE500 AS ORIGINALLY ESTABLISHED) WERE EXEMPTED FROM LICENSING REQUIREMENTS.

2. UNDER DECREE ISSUED IN JUNE 1974 MODIFYING PROVISION OF PARALLEL MARKET, EGYPTIANS WHO HELD FOREIGN CURRENCIES DERIVED FROM PARALLEL MARKET ACTIVITIES, AND OTHERS (INCLUDING EGYPTIANS) WITH SOURCES OF REVENUE OUTSIDE LOCAL MONETARY SYSTEM, I.E. "OWN CURRENCY", COULD IMPORT AND SELL ANY OF AUTHORIZED ITEMS. MANY INDIVIDUALS WHO HAD MANAGED ACCUMULATE FUNDS ELSEWHERE HAVE TAKEN ADVANTAGE OF LATTER PROVISION TO GARNER SIZEABLE WINDFALLS IN POUNDS. TAXI METERS FROM FRANCE, FOR EXAMPLE, CAN BE SOLD LOCALLY AT REPUTED EIGHT-FOLD PROFIT.

3. PARALLEL MARKET AND RELATED "OWN CURRENCY" PROGRAMS WERE DESIGNED INCREASE AVAILABILITIES OF BOTH NECESSARY RAW MATERIALS, INTERMEDIATE AND FINISHED GOODS AND MACHINERY NEEDED FOR REHABILITATION AND EXPANSION OF ECONOMY, AS WELL AS LUXURY AND CONSUMER GOODS TO MEET INCREASING DEMAND, WITHOUT PLACING ADDITIONAL BURDENS ON SHARPLY LIMITED HARD CURRENCY RESOURCES OF GOVERNMENT. IN OVERALL TERMS EFFORT HAS BEEN QUITE SUCCESSFUL, BUT HAS ALSO HAD UNFORTUNATE SIDE EFFECTS.

4. IN RELATED MOVES FOR LIBERALIZING ECONOMY, GOE HAS SHARPLY RELAXED CONTROLS OVER CERTAIN ASPECTS OF FOREIGN CURRENCY EXCHANGE IN-COUNTRY. AS RESULT, FOREIGN CURRENCIES ARE BEING OPENLY PURCHASED FOR LIMITED OFFICIAL USE.

PAGE 03 CAIRO 05947 161131Z

CHASED IN HOTEL LOBBIES AND USED IN PURCHASING LOCAL PRODUCE AND SERVICES AT SHOPPING AND TOURISM CENTERS. UTILIZATION OF CURRENCIES THUS OBTAINED HAS BEEN SIMPLIFIED BY FACT THAT ARAB INTERNATIONAL BANK (AIB) WHICH OPERATES OUTSIDE DOMESTIC BANKING SYSTEM, NOW ACCEPTS DEPOSITS OF FOREIGN CURRENCY WITHOUT REQUIRED CERTIFICATION BY CENTRAL BANK AS TO THEIR ORIGIN, AND LINES OF EGYPTIANS MAKING DEPOSITS CAN BE SEEN DAILY. AIB CHARGES A MERE 1 PERCENT FOR TAKING DEPOSIT AND 1 PERCENT FOR SUBSEQUENT WITHDRAWAL OR TRANSFER ABROAD. IN CASE OF WITHDRAWALS, AIB WILL PLACE REQUIRED STAMP IN EGYPTIAN PASSPORT PERMITTING FUNDS TO BE CARRIED OUT OF COUNTRY. AS MIGHT BE EXPECTED THIS HAS STIMULATED DEMAND FOR FOREIGN CURRENCIES

BY PROVIDING EASY OUTLET, AND BLACK MARKET ACTIVITIES HAVE INCREASED. AT PRESENT TIME \$1 BUYS LE.72 TO .75 ON BLACK MARKET, AGAINST LE.50 AT PARALLEL RATE (LE.39 AT OFFICIAL RATE).

5. SINCE TOURISTS NO LONGER EXCHANGE ALL THEIR CURRENCIES AT EGYPTIANBANKS, AND SINCE EXPATRIATES FIND IT MORE REMUNERATIVE TO HAVE REMITTANCES MOVE VIA "OWN CURRENCY" RATHER THAN PARALLEL MARKET ROUTE, FOREIGN CURRENCY INPUTS INTO PARALLEL MARKET FROM THESE SOURCES HAVE BEEN SHARPLY CURTAILED. LOCAL DEMAND FOR HARD CURRENCIES FROM PARALLEL MARKET HAS NOT SIMILARLY DECLINED, WITH RESULT THAT RESOURCES HAVE BEEN EXHAUSTED AND ITS ACTIVITIES, AT LEAST TEMPORARILY, SUSPENDED.

6. COMMENT: VAST QUANTITIES OF LUXURY GOODS THAT HAVE APPEARED IN SHOPS AND NUMBER OF NEW CARS ON CAIRO STREETS WHICH HAVE RESULTED FROM LIBERALIZATION MOVES DESCRIBED ABOVE ARE SOURCES OF POTENTIAL POLITICAL PROBLEMS FOR GOE. AVERAGE CITIZEN DOES NOT UNDERSTAND - AND PERHAPS WOULD NOT CARE - THAT EGYPT'S "NORMAL" RESOURCES HAVE NOT BEEN USED FOR THEIR PURCHASE. (RAW MATERIAL AND INTERMEDIATE GOODS, ETC. THAT ARE ALSO BROUGHT IN BY SAME PROGRAM ARE NEITHER NOTICEABLE NOR OFFENSIVE). CREATION OF CONSPICUOUS NEW WEALTH AND APPEARANCE OF NEW CLASS OF "PASHAS" IN ADDITION TO OLD ONES IS SOURCE OF RESENTMENT, PARTICULARLY SINCE AVERAGE CITIZEN STILL LIVES ON VERY LOW END OF ECONOMIC SCALE. SITUATION WILL NOT BE IMPROVED BY RECENT ANNOUNCEMENT OF PLANS (REFTEL A) TO PERMIT PRIVATE SECTOR TO COMPETE WITH GOE IMPORT COMPANIES ON OFFERS OF ALL COMMODITIES NEEDED BY PUBLIC SECTOR, AND FURTHER EXPANSION OF LIST OF COMMODITIES ELIGIBLE FOR "OWN CURRENCY" IMPORT PROGRAM. BOTH STEPS WILL PROBABLY RESULT IN LIMITED OFFICIAL USE
LIMITED OFFICIAL USE

PAGE 04 CAIRO 05947 161131Z

INCREASED DEMAND FOR FOREIGN EXCHANGE AND CONSQUENT INCREASE IN BLACK MARKET RATES FOR THEIR PURCHASE, FURTHER DEPRESSING POUND LOCALLY AND PREVENTING EFFECTIVE OPERATION OF PARALLEL MARKET.

7. IN MOVE DESIGNED AT LEAST PARTIALLY OFFSET ABOVE PROBLEMS, GOE IS REPORTEDLY CONSIDERING ALLOWING PARALLEL MARKET RATE FOR POUND TO FLOAT, ADJUSTING PRICE PERIODICALLY IN ACCORDANCE WITH SUPPLY AND DEMAND (READ BLACK MARKET) PRICES. UNDER THIS PLAN, LOCAL BANKS WOULD BE ABLE TO COMPETE WITH "OWN CURRENCY" PROGRAM AND BLACK MARKET AND WOULD THEORETICALLY BE ABLE ENCOURAGE FLOW OF TOURIST EXPENDITURES AND WORKERS' REMITTANCES BACK INTO PARALLEL MARKET WHERE GOE CAN MAKE BETTER AND MORE RATIONAL USE OF THEM. TIMING AND EFFECTIVENESS OF THIS APPROACH REMAIN UNCLEAR.

8. GOE APPEARS GENERALLY SATISFIED WITH CURRENT STATE OF AFFAIRS, EVIDENTLY CONSIDERING OVERALL BENEFITS TO ECONOMY TOMORE THAN COMPENSATE FOR PROBLEMS. IBRD IS NOT OVERLY CONCERNED WITH "OWN CURRENCY IMPORTS", IN CONTRAST WITH VIEWS OF IMF WHICH HAD SERIOUS RESERVATIONS, AND THERE IS LITTLE LIKELIHOOD THAT MAJOR

CHANGES WILL BE MADE. IN PART, AT LEAST, THIS IS ALSO PERHAPS
REFLECTION OF GENERAL EUPHORIA OVER ECONOMIC SITUATION. EGYPTIAN
LEADERS SEEM TO BE UNIVERSALLY CONVINCED THAT EVERYTHING WILL
WORK OUT - WITH A LITTLE HELP FROM FRIENDS.
MAESTRONE

LIMITED OFFICIAL USE

<< END OF DOCUMENT >>

Message Attributes

Automatic Decaptioning: X
Capture Date: 26 AUG 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TRADE LIBERALIZATION, ECONOMIC PROGRAMS, FOREIGN EXCHANGE
Control Number: n/a
Copy: SINGLE
Draft Date: 16 JUN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975CAIRO05947
Document Source: ADS
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: 11652 NA
Errors: n/a
Film Number: D750208-1166
From: CAIRO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t197506103/baaaauvd.tel
Line Count: 170
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 30 JUL 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <30 JUL 2003 by CunninFX>; APPROVED <26 NOV 2003 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: n/a
TAGS: EGEN, EFIN, EG, USEGJC
To: STATE INFO BEIRUT
JIDDA
KUWAIT
TEHRAN
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

